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## I Debt Problems Persist [REDACTED]

Although high revenues have improved Iraq's debt servicing credits, Baghdad continues to reschedule most of its debt. Iraq's debt during the financing for imports and priority. While Iraq will not reduce its debt until significantly, probably not before the mid-1990s, probably causing greater popular dissatisfaction with President Saddam Husayn's regime. [REDACTED]

Iraq's inability to meet its financial obligations to creditors during the war led it to reschedule most of its debt, including short-term trade credits and interest payments. Large debt payments combined with low world oil prices precipitated a financial crisis in Iraq in 1986. Baghdad signed bilateral rescheduling accords with most of its creditors and ignored most other requests for payment. Iraq's poor payment record caused governments that had not already cut off credit lines to do so, forcing Iraq to scramble to pay for essential imports. [REDACTED]

## From Riches to Rags

Baghdad's extensive use of foreign loans since 1982 has transformed Iraq from one of the Third World's richest countries to one of its largest debtors. The accumulation of debt stems from Baghdad's decision to continue pursuing an ambitious economic development program despite the war with Iran. Civilian spending remained high while military expenditures increased and oil exports fell sharply because of Iranian-inflicted damage to oil facilities. [REDACTED]

In response to the worsening financial picture, Baghdad adopted domestic austerity measures and began borrowing from trading partners and its Gulf Arab allies in 1983. Iraq's foreign debt rose from \$5.6 billion—mostly short-term trade credits—before the war to roughly \$40 billion at yearend 1988. In addition, Iraq's Persian Gulf allies provided about \$36 billion in financial assistance—oil sold on Baghdad's behalf and cash transfers—during 1980-88. [REDACTED]

[REDACTED] We doubt Baghdad will repay this debt regardless of whether the Saudis and Kuwaitis formally cancel it. [REDACTED]

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